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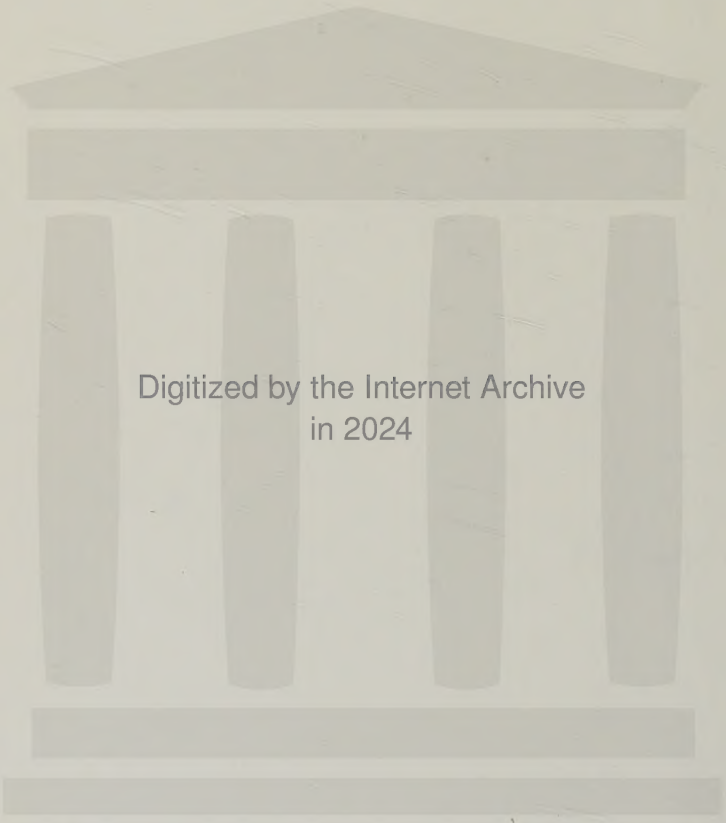
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THE SOCIAL PHILOSOPHY OF PENSIONS

WITH A REVIEW OF EXISTING PENSION SYSTEMS FOR PROFESSIONAL GROUPS

By
HENRY S. PRITCHETT

Bulletin Number Twenty-Five

1930

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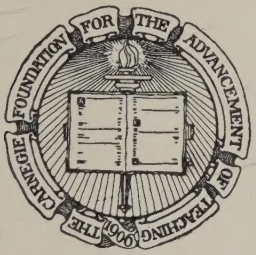
BY

HENRY S. PRITCHETT

PRESIDENT OF THE CARNEGIE FOUNDATION

BULLETIN NUMBER TWENTY-FIVE



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SOCIAL PHILOSOPHY OF PENSIONS

WITH A REVIEW OF EXISTING PENSION SYSTEMS FOR PROFESSIONAL GROUPS

I

THE SOCIAL PHILOSOPHY OF PENSIONS

The Rise of Pension Systems in the United States

THE United States, in matters of social legislation, is still a young country. Thirty years ago, little was said or printed in America touching pensions or old age annuities. This was in marked contrast with the older countries of Europe, where settled conditions of life had brought such questions into prominence nearly a century ago. In England, pensions in the Civil Service, on superannuation, were provided as early as 1834, in Switzerland, for teachers, in 1839, while in Germany a movement in favor of state aid in old age, under a form of compulsory and contributory insurance, began nearly a half century ago. The literature of pensions in these countries is extensive and the result of their long experience is of priceless value for newer countries like the United States and Australia. In the last twenty years there have been proposed in the United States pension systems covering many groups in the body politic—teachers, clergymen, members of the Civil Service of the United States, even elected city officials—as well as many projects for industrial pensions for workers in the various industries. Some of the plans which have been set up have repeated the mistakes of the older systems. There is to-day a general feeling of dissatisfaction with many of these projects. It is an opportune time to review the situation as it now exists and to recall afresh the lessons to be learned from the older European and American experience.

Pensions as Retired Pay

The term pension is applied in the United States to systems of old age annuities differing widely both as to their finan-

cial soundness and as to the theory of social service upon which they are founded.

The term pension may be properly applied to any stated sum paid periodically to an individual, whether as a gift or in recognition of past service.

Dr. Samuel Johnson accepted an annual payment from George III. It was correctly called a pension. Its acceptance brought to the good Doctor some criticism when he stoutly defended the efforts of that monarch to subdue his rebellious colonists in America. Most such gifts imply a *quid pro quo.*

When a stated sum is paid periodically to a retired officer of the government, or to a retired teacher, it becomes, in effect, retired pay. It would avoid some confusion if all payments made to individuals after their retirement from active service, in accordance with a definite plan for annuities, were described as retired pay.

The Part of the Actuary in Creating and Operating a Pension System

Since such a pension is essentially an old age annuity to be paid to the participant when he reaches a given age and until his death, the expectations of the participant must be based upon actuarial calculations with assumed rates of interest and of mortality. This will be true even when the individual accumulates year by year the reserve for the purchase of his annuity. No permanent and adequate system of old age annuities can be designed which is not based upon conservative actuarial estimates. This fact has operated to induce many of those who were establishing pension systems to believe that actuarial computation was all that was needed in order to provide an enduring and satisfactory system of pensions for a given group.

Nothing could be further from the truth. Important as is the matter of sound actuarial estimate, there are other con-

siderations which precede the actuarial computations and which are fundamental. Some of the most faulty pension systems that have been set up in our country during the last twenty-five years have been established upon professional actuarial advice. This is no criticism of actuaries, as such, since in most cases the fundamental assumptions upon which the pension systems were founded had been made before the actuary touched pen to paper or started his computing machines to turn. The primary question that must be settled is the social philosophy upon which the pension system is to rest. Shall it be a free pension system, in which the pensions are paid to the beneficiaries without any participation on their part? Or shall they participate in the creation of a reserve and acquire definite contractual rights? Shall the pension system rules bind them to remain members of the group during their whole active service, in order to enjoy its benefits, or shall they have freedom to go to another service carrying with them whatever equity their contracts may provide? Are the pensions intended to be in the nature of charitable relief or are they designed on a scale adequate to afford a modest living for the beneficiary? According as these questions are answered, the proposed pension plan may result either in a system of gratuities, usually inadequate and restricting the individual's liberty of action to membership in a particular group, or the terms may be so framed as to provide the equivalent of a retired pay under contractual rights which the participant may retain whether he remain permanently in the service or not. These questions must be answered before the actuary is ready to begin his computations.

The function of the actuary in the establishment and conduct of an old age annuity plan is analogous to that of the navigating officer of a ship. The latter sets the course for the ship, but only after the captain has designated the port of

destination. If the captain selects the wrong port, no skill of the navigator can bring the ship to the right harbor.

The Economic and Social Philosophy Underlying a Sound Pension System

So long as the inhabitants of the European states were engaged mainly in agriculture and lived in small communities, the relief of those who became dependent in old age was provided by either family or community efforts or through religious organizations. Modern pension systems had their beginning in the relief of the poor and, in some communities and states, the matter has not advanced beyond that stage.

As Germany, France, and England developed into industrial states, large groups of men came to be employed on day wages in factories. They were not attached to any social unit, and protection in old age for them and for their dependents became both a pressing economic question and a difficult social one. Systematic relief for this situation began in the Poor Laws of Germany about seventy years ago and in a comprehensive policy of workmen's insurance which soon followed. In Germany, care was exercised that state provision should not become mere state aid to the poor. A system of compulsory and contributory insurance was adopted, one-half the premium being paid by the laborer, the other half by the employer, the state adding a subvention, and furnishing a supervision of the whole system. In England, the process has been slower and accompanied by a disposition to yield to pressure for free government grants. Government aid to relieve an economic situation tends to become a habit and one hard to break.

The problem of providing old age annuities for men on day labor, whose tenure of service with a single employer is variable and who are subject to interruptions in employment due to seasonal or financial conditions, is a problem by itself.

As the older nations developed the complicated social and industrial life of the modern state, it became clear that certain professional groups in modern society must also find adequate provision for support in old age through some form of annuity which should be, in effect, retired pay. These groups differed from the industrial groups in many respects. In the first place, they were generally professionally trained for vocations which called for high qualifications, where tenure of place was secure but where the scale of pay was moderate. While these individuals rendered a valuable service to the state, they could not, from the nature of their occupations, expect either to command the high rate of pay or to enjoy the opportunities for money-making which fall to men of certain other professions or to men in business. Indeed, for most of these men the eager accumulation of a competency would seriously interfere with the quality of their service to society. It is, however, to be recognized that secure tenure of place compensates, to some degree, for moderate pay. The average pay of the college professor in the United States is probably higher than the average income of the individual who goes into business. But the maximum pay of the teacher is low when compared with the large salaries paid to a small proportion of those who enter upon a business career.

Examples of such professional groups are the civil employees of a government; teachers in universities, colleges, and schools; and clergymen.

European attempts to solve the problem of old age annuities for such groups have ranged in the past seventy years from free pensions, paid by the employer (usually a government), to individual annuity contracts with the members of the group, paid from the accumulations of the necessary reserves during the term of their service. The outcome of these experiments, as exemplified mainly in the experience of Germany and of England, is described in a voluminous

literature which it is impossible to summarize adequately in a statement of moderate length. Some comprehension, however, of the results of these efforts is necessary for an understanding and appreciation of the form of old age annuities for professional groups which has been adopted as the result of experience. It ought not to be necessary to repeat all the unsuccessful economic and social devices that have been tried in older countries in order to arrive at a sound basis for systems of retired pay for professional groups in the United States. The following statements describe, in brief, the conclusions to which the last fifty years of such experiments have led.

ECONOMIC CONSIDERATIONS

1. The primary justification for the expenditure of money by a government, a university, a church, or a corporation in the inauguration and maintenance of a system of retirement lies in the advancement of the true interests of the service for which the government, the university, the church, or the corporation exists. If that service is not to be bettered by such a retirement plan, those responsible for the conduct of the institution, whatever it may be, cannot justify the expenditure of funds for a retirement system.

No pension system based on charity to the individual can be defended. Experience has shown that the interests of the service, of the individual, and of society can be conserved only by a retirement plan based on a sound social philosophy and conducted upon conservative actuarial and business principles.

2. The cost of adequate old age annuities for members of a professional group, if the annuities are paid without the previous accumulation of reserves, is so excessive that it can be borne only by the unlimited purse of a government, as is the case with the military and naval pensions of the United States.

3. The only feasible method by which such a group can accumulate the necessary reserves to provide retired pay in old age is through annual or monthly payments throughout their term of service. This involves the setting up of some agency with which these payments can be deposited and by which these reserves can be invested under official safeguards.

4. Whatever the machinery adopted, it will be necessary to establish a coöperation between the employer on the one hand (a government or a university, for example) and the members of the group, for whom the old age annuities are to be provided, on the other.

5. It is highly desirable that the coöperating employer shall not only facilitate the process of accumulating reserves but that he shall also provide a part of the monthly or annual payment to the reserve.

6. Such payments made by an employer are in time absorbed in the salary scale and, in the long run, the members of such a professional group will provide their own retired pay. This is as it ought to be. It is to the interest of the member of such a group to receive as high compensation as circumstances will permit and to accumulate a reserve to provide his own annuity.

While this is true, it is to the advantage both of the beneficiary and of the employer that the reserve necessary to provide retired pay be accumulated through their joint payments. This principle will be elaborated later.

7. The experience of the older countries has shown that the reserves accumulated must be dedicated exclusively to the purchase of annuities for the beneficiary or for his dependents. If the contracts are so drawn that the participant has the right to withdraw the accumulations for some other purpose, such as the purchase of a house or an automobile, the system will in large measure fail of its purpose. In our country, the disadvantage of such a practice of loans on the

reserves to the credit of an individual is shown by the widespread borrowing on life insurance policies. A life insurance policy is taken out for the defence of the dependents of an individual, usually his wife. The law compels all insurance companies to lend on most forms of policies, at the demand of the policyholder (when approved by the beneficiary), up to a stated proportion on the accumulated reserves. The result is that many a widow finds that the protection which her husband's life insurance was to afford has been spent in meeting other real or imaginary wants.

These considerations are economic. Certain considerations of social equity are equally important.

SOCIAL CONSIDERATIONS

1. Professional men of high intellectual and moral standards need to preserve not only their economic independence and self-respect but also their individual freedom of action.

2. Any pension system under which the beneficiary is provided with an old age annuity without cost or participation by himself is, in the long run, demoralizing to any group of men, however high-minded. The substitution of an individual contract which enables the member of such a group to stand on his own feet is morally, as well as economically, sound. Society does not owe any man a pension. It does owe him, if his service is fruitful and of high quality, a reasonable salary and is under obligation to set up machinery through which he can, with reasonable foresight and self-control, protect his dependents against the hazard of his own premature death and himself against the hazard of dependence in old age—the two principal risks to which he is especially subject by reason of moderate active pay.

3. It is impossible to defend any system of retired pay which compels the participant to remain in a particular group or in the service of a particular employer until his

time of retirement. Such an arrangement is unfair to the individual and no less unfavorable to the employer. It will serve to retain mediocre men in the group while the more able and energetic man will leave it notwithstanding the loss of his accumulated equity. A teacher, a minister, or a civil service employee of the government needs to be free no less than he needs to be secure. In addition, it is to be remembered that society is interested in the individual not simply as a member of a group, but as a human being. It is to the well-being of society that the individual should be free to pursue whatsoever vocation he will, without losing the equity in the retired pay which goes with his years of service. This, of course, is easily possible under a system of individual contracts. That free pensions make it practically impossible constitutes one of their gravest faults.

4. Experience has shown that unless the retired pay is a reasonable proportion of the active pay at the time of retirement, the members of the group who share in the annuity system will, in time, become discontented under its operation. It is generally agreed that the working of an adequate system should provide, for the typical individual who enters the group, a retired pay of from fifty to seventy per cent of the active pay at the time of retirement. To provide a gratuity of $50 a month to a retired teacher or minister may be a welcome addition to a meagre income, but it bears no reasonable relation to his needs. Such a system ultimately breaks down through its inadequacy.

5. No machinery for conducting a system of retired pay can be devised, nor can any scale of pay for teachers, ministers, or government officials be attained, that will work without the exercise of reasonable foresight and self-denial on the part of the individual participants. The man who continues to spend all he receives during his income-earning years must inevitably be dependent on some other person or agency in

his old age. The old-time virtue of thrift, now looked upon as somewhat obsolete, is, in the final analysis, the basis of independence in old age for men on moderate fixed pay. No pension machinery, however well planned, can protect the man who lacks the self-control to devote a small part of his earnings consistently to the protection of himself and of his dependents.

An Illustration from a Pension System for Teachers

The following condensed table illustrates the kind of retired pay that can be provided on an assumed basis of salary and payment. It is a typical case in the teaching profession. It goes without saying that the man who enters such a professional group late in life cannot accumulate so large an old age annuity without correspondingly increased payments. An accumulation at four per cent is assumed until retirement.[1] At retirement the annuity is based on Hunter's American Annuitants Select Table with three and one-half per cent interest.

SALARIES, PAYMENTS, AND ACCUMULATIONS AT VARIOUS AGES

Age	*Assumed Salary*	*Annual Payment (half by college)*	*Accumulated Reserve at 4%*
30	$2,500	$250	
35	3,000	300	$1,383.01
40	3,500	350	3,342.59
45	4,000	400	6,003.01
50	4,500	450	9,516.81
55	5,000	500	14,068.91
60	5,500	550	19,883.66
65	6,000	600	27,235.33
70	6,000	600	36,456.98

[1] At present the Teachers Insurance and Annuity Association earns nearly five per cent on its invested funds and it has credited four and one-half per cent to the account of each policyholder in the past, the remainder going to the surplus as a protection against contingencies such as lowered interest rate, increased longevity, or losses in capital. At four and one-half per cent, the total accumulations at age seventy would be $40,564.15, instead of $36,456.98.

At age seventy the total accumulation shown above amounts to $36,456. Of this total, the teacher will have paid only $8,500 and his institution $8,500; the accumulated interest accounts for $19,456. Should the policyholder convert his accumulated reserve of $36,456 into an annuity on his life alone he would receive, beginning at age seventy, $4,390.92 annually, paid in equal monthly instalments of $365.83. This is equivalent to seventy-three per cent of active pay at retirement.

Should he decide to convert the accumulated reserve at seventy into an annuity ceasing at his death but followed by one of half the amount to his widow after his death, he would receive an annuity of $3,487.92, fifty-eight per cent of active pay at retirement, payable in monthly instalments terminating with his death, and his widow would receive for the period of her life the half of this annuity, $1,743.96, paid in monthly instalments. In this illustration, the wife's age is assumed to be five years less than that of her husband.

At age sixty-five the accumulated reserve, $27,235, would, if converted into an annuity to terminate with the death of the policyholder, produce an annual income of $2,762.76 paid in monthly instalments, equivalent to forty-six per cent of active pay at retirement. The corresponding annuity on the joint lives of himself and of his wife, should she survive him, would be $2,248.32 during his own lifetime and the half of this amount, $1,124.16, to his widow until her death, the payments being, as before, in monthly instalments.

The fundamental principles underlying the establishment and conduct of pension systems, as expressed in the preceding statements, pervade a literature which is voluminous in both English and German and, to a less degree, in French. Notwithstanding the wide distribution of this literature in the United States, many pension systems have been started

in contravention of its conclusions. It has been difficult to persuade those unfamiliar with the history of the subject that all these conclusions are correct.

The notion that a pension system can be maintained for a large group of professional men as a free service from the income of a large endowment is a proposal that still finds acceptance in many quarters, notwithstanding the fact that its impossibility has been so completely proved by experience. Two illusions are involved in this assumption. The first is that an old age pension, provided for a professional group without their own participation, will constitute an actual addition to the resources of the individual. Such an annuity, provided by an employer, becomes inevitably a part of salary.

This is true even of joint contributory annuities. For example: An instructor in a college at age thirty, with a salary of $3,000 a year, decides to pay five per cent of his salary, or $150 annually, into a reserve to provide an annuity in old age. His college, which is also his employer, coöperates with him in the matter by also paying $150 a year into the reserve. The $150 which the college advances becomes, for the moment, an actual addition to his remuneration though it is devoted to an assigned purpose. But three or four years later when the question of increases of salary is under discussion, the college authorities will inevitably take into account, as part of the remuneration of this teacher, the money it is paying annually on account of his annuity, and the salary is adjusted accordingly. The annuity payment by the college becomes, from that moment, salary.

It has nevertheless been difficult to convince college authorities that the annual payments they may make into a reserve to provide a pension for a given teacher, being, as shown above, essentially a part of salary, should become the property of the teacher. Some colleges still insist that sums paid by the college be put into a separate reserve and that,

in case the teacher leave the service of that particular institution, he shall benefit only by that part of the reserve provided by his own payments. This is unjust to the teacher and means, in effect, that he has worked on a lower salary than his colleagues who remain to retirement.

It is to the interest of the college that some part of the salary of its employees, the teachers, shall be devoted to the purpose of old age annuities. When, therefore, it contributes annually a set sum to the reserve for providing this annuity, it secures a marked advantage to itself by reason of the fact that the old age annuity will be available at the proper time. This is a matter of so great advantage to the college that it should welcome the opportunity to coöperate with the teacher in advancing, year after year, a part of his salary for the accumulation of a reserve to provide his annuity when needed.

A second illusion of those who have set up pension systems has prevented their seeing that these will be ineffective unless the pensions are adequate. As has been already pointed out, a pension, paid as an annuity under fixed conditions to members of a group, is retired pay. It cannot be made equal to active pay unless the reserves are accumulated over a long period or the man retires at an advanced age. But such retired payments must bear an appreciable ratio to the active pay at the time of retirement. How large this ratio should be will depend somewhat on circumstances, but it must be sufficient to enable the participant to live, with the help of such accumulation as he may make otherwise, in a modest way. A service pension means retired pay, and unless the retired pay bears a fair ratio to the active pay, discontent will inevitably result. There is still another result which bears most directly on the quality of service of the institution itself. In the absence of a retired pay sufficient to give at least a modest support, individuals who ought to

retire remain in service long after their effectiveness has greatly diminished. This is the most costly form of retired pay.

It has not been fully apprehended by those who have instituted pension systems from funds collected for that purpose that an ordinary endowment, however large, is not a safe basis for the maintenance of a continuing and growing system of insurance or of old age annuities. Only an insurance company, subject to the scrutiny of the state as to expenses and investments, is properly organized financially to assume such a continuing obligation and guarantee a minimum return on its investments over a long term of years.

Group Insurance and Group Annuities

Any description of old age annuities for professional groups must take note of group contracts made by the great insurance companies.

The insurance companies are, as a rule, ready to suggest to an organization, or to a group, a plan that combines group insurance and group annuities, or they will in most cases undertake to carry out the plans of an employer or other representative of a particular group. Group insurance has been in use longer than group annuities and is more easily adapted to the circumstances of group protection.

In 1918 the National Convention of Insurance Commissioners recommended the adoption of the following standard definition of group life insurance, which has since been adopted by a majority of the states:

> Group life insurance is hereby declared to be that form of life insurance covering not less than fifty employees with or without medical examination, written under a policy issued to the employer, the premium on which is to be paid by the employer or by the employer and employees jointly and insuring only all of his employees, or all of any class or classes thereof determined by

conditions pertaining to the employment, for amounts of insurance based upon some plan which will preclude individual selection, for the benefit of persons other than the employer; provided, however, that when the premium is to be paid by the employer and employee jointly and the benefits of the policy are offered to all eligible employees, not less than seventy-five per centum of such employees may be so insured.

A well-known life insurance company makes the following statement concerning group annuities:

A sound Retirement Plan is one which can be depended upon to provide old age incomes when needed and is removed from the ordinary risks of business.

It may be paid for by the employer alone, by the employee alone, or by the employer and employee together.

Since a Retirement Income is in fact an annuity, it may best be handled as insurance companies handle annuities. The most certain way in which an annuity promise can be guaranteed is by means of reserve funds; the simple way of providing the funds is to accumulate them currently and thus benefit by compound interest until the maturity of the promise. The time to build up a fund out of which a Retirement Income for life shall be paid is during the years in which the employee is at work making profits for his firm.

It is obvious that the younger the employee is at the time of going into the plan, the greater will his pension be for each dollar of reserve set up.

The insurance companies have differed considerably as to the terms under which they would undertake group contracts. As a rule the amount of the insurance to the individual does not exceed a year's salary. Group contracts, whether for insurance or for retired pay, are ill-suited to professional men like teachers, who generally remain in the profession, but who do not wish to have either insurance or retired pay dependent on membership in a particular group.

Furthermore, the insurance that is usually provided under the group plan is insignificant in comparison with that which the college teacher of to-day can, and ought to, carry.

The group contracts of the commercial insurance companies have hitherto found their chief use in the industrial field. Industrial companies and employees must, in the end, work out a system for themselves through joint payments of employer and employee. To-day in the United States the migration of workmen is such as to make it difficult to set up a personal contract for the worker in industry. If, however, labor continues to share as it does to-day in the benefits of greater production, it must in the end provide its own retired pay by accumulations during active service. The old age annuity is no longer a charity problem in a country where all who labor have a share in the profits of production. It is a business problem. And the sooner employers and employees face this fact the sooner a sound solution will be had. In the end, the cost of protection to the industrial worker in old age must be borne by him and it is to his interest that this should be so, as long as he shares equitably in the profits of industry.

II

REVIEW OF EXISTING PENSION SYSTEMS FOR PROFESSIONAL GROUPS

THIS review is confined to those professional groups for which special pension plans have been worked out and have been long enough in existence to demonstrate their suitability and permanence. They include three groups of professional men and women:

(1) Teachers
  (*a*) College and university teachers
  (*b*) Public school teachers
(2) Ministers of the Protestant churches
(3) Members of the Civil Service of the United States government.

The pages which follow undertake to indicate the essential features of the various systems that have been set up and to show to what extent they conform to the principles of a modern system of retired pay as these have been set forth in the preceding paragraphs.

(1*a*)

Retired Pay for College Teachers

Thirty years ago, in the United States, the movement to provide retired pay for college teachers was just beginning. Only a few universities, notably Harvard and Yale, had instituted a definite plan for the retirement of their professors. Even in the case of these institutions the subject had received no extended study. The plans under consideration contemplated pensions paid to teachers without their coöperation and would inevitably have resulted in loads heavier than the colleges themselves could have borne. Few college boards of trustees at that time recognized any obligation to their teachers in respect of retired pay after faithful service.

The matter of old age annuities for college teachers was in this state when Mr. Carnegie announced, in 1905, his generous gift of $10,000,000 for the purpose of providing retiring pensions to teachers of universities, colleges, and technical schools in the United States, Canada, and Newfoundland. The conditions of his gift were such as to exclude institutions that were under control of a religious body or that required the trustees, or a majority thereof, to belong to a specified sect. He excluded, also, teachers in institutions founded and controlled by state and provincial governments who, as he thought, might prefer that their relations should remain exclusively with the state. Later on, however, he provided an additional $5,000,000 in order to include the teachers of certain tax-supported institutions.

At the date of Mr. Carnegie's original grant it was expected that the benefits of this endowment would be available for teachers in a strictly limited number of institutions. It was his desire and expectation that the pensions to teachers in these institutions should be modest and that they should be furnished without expense to the teacher. The trustees proceeded to grant pensions on these conditions.

The weaknesses of the free pension system very soon became evident both to the trustees and to Mr. Carnegie. Not only is the free pension financially impossible to sustain on a scale sufficient to provide the equivalent of retired pay, but it is demoralizing to the beneficiaries. Furthermore, the free pension system tends inevitably to depress the salary scale. One of the surprises that came to Mr. Carnegie, on the announcement of his gift, was the view frankly expressed by the presidents of some institutions that the pension fund would enable colleges to employ teachers at lower salaries.

The important question was: What ought to replace the free pensions?

To answer this question a systematic study of the litera-

ture of the subject was undertaken, together with an examination of the experience of the older pension systems in European countries. During the last twenty years the publications of the Carnegie Foundation have endeavored to describe every pension system that dealt with college and university teachers. The literature of such pensions is more fully covered by these publications than by any other single series of reports in the world.

Adoption of a contractual plan of old age annuities was the outcome of this study.

It became clear also, in the course of this study, that only an insurance and annuity company, under the scrutiny of a state insurance department, could write such contracts upon a satisfactory basis. Such a company must maintain reserves and surplus adequate to give complete security to its contracts. The question was considered whether an existing commercial insurance company might not fully meet these conditions. The decision to establish an insurance and annuity company for those in the profession of college teaching was decided upon for the following reasons:

The number of teachers in the colleges of the United States and Canada was estimated to be approximately 50,000 persons. This group is large enough and widely enough distributed to furnish a sound basis for the business of an insurance company.

In the second place, the teacher is less exposed than the average man to certain risks and his expectation of life is better than the average. Any agency which undertakes annuity contracts should offer insurance policies as well. These two contracts supplement each other and, together, make a more stable basis for writing policies than could be had by writing annuity contracts alone.

In the third place, the overhead costs in commercial insurance companies consume a considerable part of all the pre-

miums paid. An agency freed of overhead by the payment of these charges through the Carnegie Foundation and the Carnegie Corporation could, therefore, furnish to teachers policies in insurance and contracts in annuities on more favorable terms than can be offered by any company whose overhead costs must be paid by the policyholders.

Finally, it seemed desirable to set up an insurance and annuity association for teachers, for the reason that such a company, conservatively managed, would be able not only to furnish policies at lower rates than a commercial company, but also policies that are specially adapted to the economic situation of the college teacher.

The teacher in the college or university, after his first years of testing, has practically a life tenure of place. He may migrate from one college to another but he rarely leaves his profession. While he is exposed to fewer hazards of life than are most men, two main risks confront him. One is the hazard of dependence of his family in case of his premature death. This must be protected by insurance. Secondly, he faces the hazard of his own dependence in old age when his earning ability has decreased. For this an annuity contract is needed. Protection against these two hazards constitutes for him a primary and personal responsibility. If he can be provided with machinery through which, within his own ability to pay, he can defend himself against these main hazards, he will have accomplished all that can be reasonably asked of him on the basis of his duty to his dependents, to himself, and to society.

Notable as is the service that the great insurance companies render, they carry on their business under a stress of competition that tends to become more and more sharp. The selling end of the business tends to overbalance the fundamental purpose for which the companies exist.

It is the selling end of the insurance business that is con-

stantly demanding new and attractive policies. This brings a pressure to offer a policy that undertakes more than a conservative insurance policy ought to offer.

Disability policies have been written by some companies during the last ten years upon a basis that cannot be regarded as entirely sound. Nobody knows to-day accurately the cost of total disability, as some insurance companies have found to their embarrassment. To the teacher, leading a life more or less sheltered, investment in disability policies whose conditions he does not understand, and in which the question of disability must finally be decided by a representative of the company, is at best of doubtful wisdom.

THE TEACHERS INSURANCE AND ANNUITY ASSOCIATION
A RETIRED PAY SYSTEM

For all these reasons, it seemed clear that there was a place for an insurance and annuity company for college teachers that could render to these teachers a service both better suited to their needs and costing less than that provided by a commercial company. Further, a teachers company, with its relations to the universities and colleges, was able to arrange for monthly payments by the teacher and by the college through the college treasurer, thus making the whole process easier. In addition, there seemed no better way to use the funds provided by Mr. Carnegie for the benefit of teachers than in defraying the overhead cost of such an agency, thereby giving the teacher a company of his own in which every cent that he paid in was at once put to work to accumulate interest for his benefit. The Teachers Insurance and Annuity Association of America, incorporated under the laws of the State of New York and conducted under the scrutiny of its Department of Insurance, was the outcome of these considerations.

A special feature of the annuity contracts of the Associa-

tion, and one which the State Department of Insurance has particularly commended, is that under which teachers may pay additional sums from year to year as they may find convenient, thereby increasing the amount of the annuity which will be available for them from the reserves standing to their account. During the year 1928 there was paid in by college teachers, in this way, approximately $115,000 above the regular premiums provided in their contracts.

The Teachers Insurance and Annuity Association has been remarkably successful during the eleven years of its history and it is to-day writing an increasing volume of contracts both for insurance policies and for annuities. The following statement shows the growth of its business up to December 31, 1929:

TEACHERS INSURANCE AND ANNUITY ASSOCIATION

Contracts in Force at End of Year

	1925	*1926*	*1927*	*1928*	*1929*
Number of Life Insurance Policies	3,251	3,715	4,316	5,021	5,791
Amount of Insurance	$17,450,035	$20,448,651	$23,903,775	$28,036,216	$32,788,197
Number of Annuity Policies	3,640	4,542	5,633	6,956	8,132
Amount of Annual Annuity	$5,640,290	$7,151,070	$8,970,314	$11,014,190	$12,913,397
Total Number of Policies	6,891	8,257	9,949	11,977	13,923
Insurance Policyholders	2,148	2,456	2,819	3,234	3,660
Annuity Policyholders	3,622	4,514	5,584	6,894	8,040
Total Different Policyholders	5,229	6,318	7,600	9,159	10,635
Institutions Represented	540	587	678	716	777

The number of annuity contracts in force increased during 1929 from 6,956 to 8,132, or 17 per cent. The Association is now among the largest annuity companies in the country. The number of life insurance contracts in force increased during that year from 5,021 to 5,791, or 15 per cent. The life insurance contracts are held by 3,660 different individuals. The total number of annuity and insurance contracts increased during the same year by 16 per cent, from 11,977 held by 9,159 different policyholders, to 13,923 contracts held by 10,635 different persons.

This brief statement conveys in some measure the nature

of the service that will be rendered in the future to the college teachers of English-speaking North America through this agency. Within a generation the Teachers Insurance and Annuity Association may be paying out a million dollars a month to retired teachers, and this is only a beginning.

The list of policyholders includes both teachers whose institutions coöperate with them and those who take out contracts on their own account, without the coöperation of their institutions. Of the 6,894 annuity policyholders in 1928, 6,214 belong to the first group and 680 to the second. Where the institution coöperates, the convenience to the teacher in making payments is greatly facilitated since these are carried out through the office of the treasurer or bursar of his institution by monthly deductions from salary, authorized by the teacher.

The list includes, besides teachers in colleges and universities, a number of men engaged in scientific research in agencies like the Carnegie Institution of Washington or the Rockefeller Institute for Medical Research. It includes teachers also in a limited number of endowed secondary schools for whom no method for the accumulation of old age annuities was provided by other means and who are not eligible to the systems set up in the various states for teachers in public high schools.

It should be added that the attitude of the great insurance companies toward the Teachers Insurance and Annuity Association has been friendly and helpful.[1] The great companies have realized that this agency for teachers appeals to but a limited group and does not compete in any real sense with the volume of business transacted by the com-

[1] From a recent publication by a representative of one of the largest and most progressive insurance companies: "This practice [of individual contracts] is already being followed by nearly 200 institutions of learning in the United States, through contracts with the Teachers Insurance and Annuity Corporation. The quiet but efficient work of this splendid institution, founded by Mr. Carnegie and its expense of operation defrayed largely from his gifts, is beyond praise."

mercial companies. It has occasionally happened that an enthusiastic agent has sought to make it appear to a group of college teachers that he could offer something "just as good or better" through a commercial company, but such episodes have been rare and of small consequence. Teachers themselves have gradually learned that they can receive impartial advice by writing directly to the office of the Teachers Insurance and Annuity Association. The business of the commercial companies has touched that of the Insurance and Annuity Association mainly by the offers of group insurance and of group annuity contracts. While these plans may be appropriate to industrial groups, they are ill-suited to the teacher, who should, above all things, be careful not to condition either his insurance or his annuity upon membership in a group. Group insurance for a college faculty may serve a temporary and useful purpose, if the teacher does not get the mistaken notion that he is thereby sufficiently protected. Such policies are generally small. They amount usually to a single year's salary. Any teacher who is content with such protection for his dependents has failed to inform himself of his obligations and of the opportunities open to him in the Teachers Insurance and Annuity Association.

The Teachers Insurance and Annuity Association, therefore, embodies precisely those principles which have been indicated in the preceding section as forming the basis of a system of retired pay, sound both on economic and on social grounds. It is, in effect, an expression of the experience of the world in the field of old age annuities for a professional group. The contracts of the Association comply with the following conditions which are indispensable for the safety and protection of the teacher:

(1) The legal reserves and accumulated surplus furnish ample protection for its contracts.

(2) The contract is with the individual.

(3) Under the terms of the contract, the freedom of the teacher is safeguarded as well as his security, and no restraint upon the migration of the teacher from one institution to another is imposed. Furthermore, if the teacher leaves the profession altogether, to engage in other work, he can continue his contract by the payment of a loading of about eleven per cent, which is small in comparison with what he would pay to a commercial insurance company.

(4) The contract enables the representative teacher, within his means, to accumulate a retired pay upon which he can live decently and in comfort.

(5) It tends to raise the salary scale, not to depress it.

(6) Finally, it is available to any college or university teacher, or academic research worker, in the United States, Canada, or Newfoundland, whether with or without the coöperation of his institution, and without regard to whether his institution is endowed, tax-supported, Catholic, Protestant, Jewish, or controlled by any other religious body.

ISOLATED COLLEGE RETIREMENT SYSTEMS

Whatever diverging views may be held concerning other characteristics of sound retirement systems, there is approximate unanimity as to one feature, namely, contractual security. From the point of view of a teacher in a college or a university, contractual security is the first consideration. It was the realization of this fact that led to the founding of the Teachers Insurance and Annuity Association.

When a college or a university creates its own system of retiring allowances, it is always to be hoped that the institution is making a contribution to the theory and practice of teachers retirement from which its sister institutions may profit. Unfortunately this has not been the history of such

efforts. The isolated college system of retirement has, in the great majority of cases, been instituted by those who were not familiar with the literature of the subject and without knowledge of pension systems. It would serve no useful purpose to point out in detail the weaknesses of special systems of retirement that have been set up by different institutions, sometimes through their own machinery and sometimes in conjunction with an insurance company. It is sufficient to indicate some of the more serious deficiencies of these isolated pension plans.

The essential objections to such plans have already been pointed out. No retiring allowance system that compels a teacher to remain in a single institution during his whole term of service can be defended. Such a provision is opposed alike to the interest of the teacher and of the institution.

It is likewise impossible for any single institution to offer to a teacher a contract that is comparable in security to that offered by an insurance company subject to scrutiny as to its investments and expenditures. How insecure such arrangements are will be appreciated by the following condition inserted in the pension system set up by one of the larger state universities:

> As the additional compensation in death benefits and retiring allowances herein provided is to be paid to secure the stability and permanency of said faculty and staff, therefore all rights and claims of any member of said faculty and staff in or to death benefits and retiring allowances, are forfeited, and shall cease, with the termination of service of such member for the university, whether such termination is voluntary or otherwise.
>
> The Board of Trustees reserves the right to alter, modify, or annul all or any part of the provisions for compensation to members of the staff as provided herein, at the end of any academic year, without liability; all claims and rights of members hereunder shall

be subject to such modifications, alterations, or terminations.

It is difficult to understand how such a plan can lead to "the stability and permanency" of the faculty.

A more common weakness is illustrated in a joint contributory pension and insurance plan, set up at one of the large endowed institutions. Under this plan, the governing body appropriates annually an amount duplicating the five per cent of the salaries of contributing members which is paid by them. All of the institution's contribution and three per cent of the professor's goes to a pension association, the remaining two per cent of the teacher's contribution to the purchase of group insurance. Thus, of the entire joint contribution, equal to ten per cent of the member's salary, there is allocated to the Pension Association for retiring annuities eight per cent and to the group insurance, including the risk of both death and disability, two per cent. Retirement for age is compulsory at seventy years, but any member of the staff may be retired for age at the discretion of the governing body.

The fact that both the contributing members and the governing body pay equal amounts of five per cent of the salary would lead to the expectation that the benefits to members from the two sources would be equal. This is not the case. The old age "annuity" for a contributing member is based upon the purchasing power of his accumulated principal and interest. This is only partly true of the "pension" provided by the Pension and Insurance Fund from the contributions of the institution with their accumulations. This pension is limited to $1,200. No matter what the annuity to which a member's own accumulations normally entitle him, he cannot hope for a retiring allowance of more than $1,200 through the accumulations of the payments made by his institution.

The inadequacies referred to are also apparent in the provision for permanent total disability. It is to be remembered that a total disability that unfits a college teacher for his duties, may, and oftentimes does, differ from an insurance company's acceptance of the meaning of that term. Deafness, for example, which would disable a college teacher, would probably not be considered by a commercial insurance company as total disability.

The age at which the proposed disability insurance coverage ceases presents a serious objection. The arrangement for total disability provides this coverage only before retirement for age and before age sixty. Thus, during the five or ten years which stand among the most hazardous of the teacher's career from the standpoint of dependence, the member is deprived of the protection of group disability insurance and has no support in the event of such disability save from other accumulated funds.

This particular plan contains the inequitable condition that a member who severs his connection with the institution before retirement receives his own accumulated principal with interest, but receives nothing from the payments of the institution. As has been pointed out, this clearly violates the well-known principle that payments by an employer are absorbed in time in the salary scale. Happily for the profession of the teacher, almost all institutions that have adopted a contributory annuity plan have taken a more liberal and far-sighted view. Any pension and insurance scheme which penalizes the transfer of college teachers, especially younger men whose careers are still in the making, is not in the interest of the profession as a whole nor of the individual teacher nor of the cause of education. This fallacy has been so often pointed out and the principle itself so fully determined by experience that it is astonishing to find any institution to-day adopting so unwholesome a provision.

Group insurance is ill-adapted to the professional life of the college teacher. Even in those cases where institutions have arranged through commercial companies for such insurance, the advantages are oftentimes not so great as they appear. For example: In such a plan it is sometimes provided that in case of termination of service with the college, or for other reasons, this group insurance may be converted without medical examination into an individual policy with subsequent premiums paid by the individual in accordance with the rules established by the insurance company. The teacher who makes such a contract will find that the conversion of his policy from yearly renewable term insurance (which is what group insurance amounts to) to individual insurance, will involve premiums applicable to the age at which he makes the transfer. These may be prohibitive.

The provisions of this plan are, in effect, such as to make it almost impossible to detach from the institution which has set it up any teacher who has been in its service for ten or a dozen years.

THE RISE OF PAY IN AMERICAN COLLEGES

It is not possible to show with any degree of accuracy the changes in the salaries for all classes of teachers in our schools and universities. The Carnegie Foundation, however, has from year to year compiled exact official records with respect to those teachers who, in seventy-two colleges and universities, have enjoyed the benefits of its free retiring allowances. These associated institutions include a number of the strongest colleges and universities in the country, both among those institutions which are endowed and those which are tax-supported. The scale of pay for their teachers is probably the highest in the country.

The increase in the salaries of these teachers between 1913 and 1917 averaged approximately $400, but affected

almost wholly teachers who were then forty-five years of age or more, ranging from an increase of $250 at that age to $1,000 at the age of sixty-five. This was balanced by an increase between 1917 and 1919 which averaged approximately $500, but was so distributed as to affect mainly teachers who were then forty-five or younger. The increases between 1919 and 1921 were distributed in somewhat the same way: a general increase of approximately $900 between 1919 and 1921 was slightly larger among the older men; a general increase of approximately $300 between 1921 and 1923 was slightly larger among the younger. An increase of approximately $200 between 1923 and 1925 was distributed almost evenly among the various ages.

In general, between 1913 and 1925, the salaries paid at the various ages to teachers who have expectations from the Foundation have doubled. The increase favors especially the teachers at the younger ages, being 160 per cent for those aged thirty-five, and 105 per cent for those aged forty in 1913.

During approximately the same period the index figure that is believed to represent the cost of living advanced from 100 in 1914 to 176 in 1925, thus reducing the effect of an increase of one hundred per cent in dollars to one of about fourteen per cent in purchasing power.

The typical salary in those institutions that are associated with the Foundation for various ages for the years 1913 and 1925 is shown by the following table:

SALARIES IN INSTITUTIONS ASSOCIATED WITH THE CARNEGIE FOUNDATION

Age	*1913*	*1925*
35	$1,500	$3,900
40	2,000	4,100
45	2,200	4,400
50	2,500	4,800
55	2,600	4,900
60	2,700	5,100
65	2,700	5,400

(16)

Retired Pay Systems for Public School Teachers

For no group in the social order is there greater need for some system of retired pay than for public school teachers. The overwhelming majority of these in the United States are women. The public school teacher renders to the state a service as important as that rendered by any other profession engaged in public service. A reasonable and sound system of retired pay is essential to the improvement and effectiveness of public education.

The difficulties in the way of constructing such systems in the different states and municipalities are many and complicated. In comparison with these, the construction of a plan of retiring allowances for college teachers throughout the United States and Canada is extremely simple. College teachers constitute a relatively small group, scattered in a few hundred institutions throughout two nations. In each institution a single financial officer is able to deal with the matter of accounts and remittances. It was a relatively simple matter to create machinery in the State of New York, subject to state supervision, competent to write contracts in insurance and in old age annuities and to invest and conserve the accumulated funds.

When, twenty-five years ago, the problem of pension systems for public school teachers was first taken up, many difficulties were immediately encountered. In the first place, the various teachers organizations that considered the situation began with the natural assumption that the teacher's pension was to be paid by the state or by some agency other than himself. This mistake had, of course, been encouraged by the free pensions of the Carnegie Foundation. For this original mistake the Foundation has subsequently sought to atone in every possible way, and especially by the ad-

vocacy and creation of well-considered contractual plans.

Public school pension plans were further complicated, as were those of the colleges, by the presence of a number of older teachers who created the question of so-called accrued liabilities. If one could start a retired pay system with all of the members of the service young people, the development of such a system would be simple. There was a natural reluctance to set up a system of retired pay which did not include older teachers of the schools, while, on the other hand, it was financially impossible to provide such teachers with allowances comparable to those which could be accumulated by moderate deposits, over a number of years, though some pension efforts undertook to do this.

The formation of pension systems for the public schools has also been complicated by the fact that during this whole period the system of public education of the United States (and this is true of endowed colleges as well as tax-supported colleges) has undergone an enormous expansion. Communities and states have been called upon for unexpected increases of expenditures for their schools. To add the expense of a retired pay system has seemed to many state and municipal officers an undertaking to be deferred.

Another source of difficulty lay in the fact that many state and local systems of taxation are deficient in their provisions for tax levies that may be spent upon public education. Legislatures are naturally reluctant to overturn an established tax procedure, even though it be antiquated and unfit. There are still nine states in which no money can be expended for teacher retirement systems without additional legislation.

Added to all these difficulties, the teachers themselves and the public officials responsible for a decision have found themselves puzzled in the face of divergent advice which they received as to the cost of such pension systems and as

to the social philosophy upon which they ought to depend. In 1903, the National Education Association appointed a committee of seven to enquire into "the salaries, tenure of office, and pension provisions of teachers in the public schools of the United States." The committee reported in March, 1905. It necessarily sought its standards in Great Britain and France rather than in the United States. The French "free" (non-contributory) pension provisions appeared to the committee more satisfactory than the British joint contributory system. During the two decades in which public school pension systems have been organized, those who have established them have in some cases been misled by the opportunist tendencies of the actuaries they consulted. For example: The fallacy of using the final average salary as the basis of a promised pension led many astray. The Carnegie Foundation has only recently been able to eliminate this unfortunate feature of its original system. This fallacy embodies the most dangerous single provision in many statewide retirement systems of to-day. Its survival illustrates the weakness of imitating the details of teachers retirement systems in force in other states rather than of approaching the problem afresh and proposing a solution based upon sound principles adapted to state and local needs.

Finally, the institution of a statewide retirement plan or of a municipal plan for public school teachers is necessarily complicated with politics. Notwithstanding all these difficulties, great progress has been made and constant improvement is going on. In more than half the states of the Union, public school teachers are in some measure protected in their old age, and this alone represents an enormous advance in public opinion over that of a quarter of a century ago.

It goes without saying that a retired pay system for public school teachers must, in the end, meet the conditions which have been described in the preceding pages as

necessary for a sound retirement plan. These may again be briefly stated for this purpose as follows:

(1) The reserve to provide retired pay must be accumulated by monthly or annual payments on the part of the teacher and of his employer.

(2) Each teacher must have an individual contract clearly describing his obligations and his rights.

(3) The payments made by a state or municipality to a teacher toward his old age annuity are inevitably absorbed into the salary.

(4) On separation from the service before retirement the teacher must be able to take with him the entire equity accumulated under his retirement contract.

(5) Adequate machinery must be provided to write the annuity contracts and to invest and handle the accumulated funds.

The public school teacher must, in the end, pay his own pension even though a state or a city government coöperate with him in the process of accumulating the reserves.

In the reports of the Carnegie Foundation during the last twenty years the endeavor has been made to describe every pension system for teachers set up in the United States and the various advantages and faults of each individual system. It is possible here to give only a brief summary of what has occurred.

Reference has already been made to the appointment by the National Education Association in 1903 of a committee which reported in March, 1905. The report of the committee leaned rather toward the notion of governmental pensions, that is, pensions paid to the individual teacher on his retirement directly out of state or municipal funds. At that time the committee found that six states (Massachusetts, New York, New Jersey, Ohio, Illinois, and California)

and also three cities (New York, Detroit, and San Francisco) had pension systems, of which the total cost was borne by the taxpayers. Several others, however, such as Chicago, Boston, Charleston, and Jersey City, had "something termed incorrectly pensions, but which are purely retirement funds provided entirely through deductions from salaries of teachers." It is quite clear from this language that the teachers still thought of pensions in terms of payments made wholly at the expense of the state or municipal governments, and that there was no recognition of the fact that such pensions, even if paid, would be reflected in the salary scale.

Since 1905 there has been encouraging development both in the number and in the quality of statewide teachers pension systems.

Ten years after the report of the committee, the Carnegie Foundation described in its Tenth Annual Report twenty-four pension systems for twenty-two states and forty-one local pension systems in ten more states, a total of sixty-five such systems in thirty-two states. Of the twenty-four state systems, no fewer than eight had been established between September, 1914, and September, 1915.

The great growth in the number of statewide teachers retirement systems is thus shown to have taken place before 1915. Between that year and the present time there was little change in the number of such systems. In 1929, twenty-two states were operating statewide pension systems and within the same area twenty-one cities operate their own systems, in the five of which teachers are members both of the local and of the state systems. There has also been instituted a retirement system in the District of Columbia. Five other states have enacted retirement legislation applicable, however, only to communities of a certain population.

On the other hand, twenty-one states have no state re-

tirement system in effect, although in twelve of these twenty-one states, twenty-seven cities have set up local plans under permissive state enactments.

The geographical distribution of statewide systems is of interest. New England is fairly well covered (Maine, Vermont, Massachusetts, Rhode Island, Connecticut). The more populous Atlantic states have also attempted to meet the problem (District of Columbia, Maryland, New Jersey, New York, state and city, Pennsylvania, Virginia). The Mid-West has six statewide systems (Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin). In the West and the Far West, also, six statewide systems have been set up (Arizona, California, Montana, Nevada, North Dakota, Washington). In the main, the South has not favored state provision, and has tended in eleven states (Florida, Georgia, Kentucky, Mississippi, New Mexico, North and South Carolina, Louisiana, Tennessee, Texas, West Virginia) to depend upon local systems, whether authorized by state enactment (Georgia, Kentucky, Louisiana) or not. The same is true of certain western states (Arkansas, Colorado, Idaho, Iowa, Kansas, Missouri, Oklahoma, South Dakota, Utah). The more northern states therefore may be said to be fairly well committed to the notion of statewide provisions for teachers retirement. The more southerly states are not. The movement for teachers retirement systems in many instances parallels the modernizing of the state public school system.

When one undertakes to describe the quality of the protection afforded to the teacher by these state and local retirement systems, he encounters great difficulties in evaluating them.

No statewide teachers retirement system now in existence is ideal in all its provisions. Almost every one is in a period of transition, which means, in effect, an attempt to bridge a gap between an older and less sound system through later

and better provisions. It is impossible to abolish overnight an unsound plan, once adopted, because in almost all cases its benefits are more liberal than ought to have been offered in view of the resources available, and the possible beneficiaries of the more liberal provisions are reluctant to exchange these for more restricted benefits founded upon sound considerations. The hopeful circumstance is that nearly all these retirement plans have undergone salutary changes during the last ten or fifteen years.

In 1918 the Carnegie Foundation, in preparation for its Bulletin Number Twelve on *Pensions for Public School Teachers*, enquired into some sixty-seven pension plans in the United States, representing twenty-five states and sixty-four counties and cities. In all the systems, retirement was on the basis of from twenty to forty years of service, although about one-half of the systems permitted retirement on the basis of age. A very large proportion provided retirement in case of disability. Teachers contributed to the pension reserves in about six-sevenths of the systems, usually in an amount equivalent to one or two per cent of salary. In a similar proportion of the systems, public funds were provided from incidental sources, such as excise taxes and licenses, school and special taxes and fines for classroom absence, or from direct appropriations. A payment by the state or community was related to that of a teacher in a comparatively small number of cases, but where so related the most frequent arrangement was that it should equal the teacher's own contribution. Less than one-half of the retirement plans called for the return of part or all of a teacher's contribution in case of resignation, the refund being most frequently only one-half of the teacher's contribution without interest. Less than one-third of the plans provided that contributions should be repaid to a beneficiary or an estate in case of death. The representative pension for all these

systems was somewhere about $500. In consequence of the fact that a frequent requirement was that the teacher should have contributed to the fund a sum equal to the first year's annuity, and that this would be matched by the state, a considerable number of systems were in the very unfortunate condition of providing funds that would pay pensions for only two years.

Actuarial advice of an effective sort was seldom provided for the scrutiny of these retirement systems. They were characterized generally by large privileges and small resources.

Such was the actual situation regarding retirement plans for teachers in 1918. Its seriousness is indicated by the fact that the teachers retirement systems of New York, New Jersey, Porto Rico, Boston, Indianapolis, Maryland, Virginia, Cincinnati, and Illinois had already experienced marked vicissitudes. The authors of this report, however, expressed their belief that a safer and better future for pension systems was to be anticipated as the result of careful and comprehensive study.

Their forecast has been, in considerable measure, fulfilled. A recent survey for the United States Bureau of Education summarizes the current tendencies in statewide teachers retirement systems partly as follows: Although the representation of teachers upon administrative boards is continued, it has decreased in extent. The joint contributory principle may now be regarded as fully established and systems are supported by contributions from both teachers and public. Such uncertain sources of funds as gifts, legacies, excise taxes, and license fees have vanished and the public's contributions are raised through taxation. The actuarial reserve plan of financing is also well established, together with provision for periodic actuarial examination. Accrued liabilities, however, continue to give concern to both teachers and public. Membership is generally compulsory for new teachers, optional

for present teachers. The percentage basis for the teacher's contribution at a fixed level, throughout the entire period of service, has practically superseded less desirable and less just methods of assessment. Although limits and special requirements respecting the teacher's contribution have been abandoned, these still restrict the contributions of the public. The principle of separate individual accounts is now unassailable. In general, amounts of the retiring allowance have increased, although owing to the operation of restrictions and limits they do not bear on the average a satisfactory relation to the entire payroll. For example, recent study shows that the New York State Teachers Retirement System pays an average retiring allowance of $904 a year. That of the New Jersey State Teachers Retirement System is $869. In Massachusetts, the teachers retiring annuity provided by the State was raised by legislative enactment in June, 1929, to $650. The average retiring allowance for New York City teachers has for some years been at least $1,200. Refunds are more generous and more extensive. Disability provisions are somewhat more generous, apparently with an unfortunate tendency to dispense with medical examinations.

The most balanced of the state systems of pensions for teachers is perhaps that of Vermont. Although membership is optional, it provides a reasonable contribution from the teacher, which is duplicated annually by the state. It allows retirement at 60 for women and 65 for men, and in case of disability after 6 years of service. In case of either withdrawal or death before retirement, the teacher or his estate has the benefit of the state's contribution as well as his own.

The Wisconsin system is possibly too conservative in not admitting teachers until they are twenty-five and too generous in allowing retirement at fifty, and it is impossible for the layman to tell from its regulations what the state's contribution and the consequent provision for retirement

amount to. On the other hand, the teacher's contribution is reasonable, the state's contribution is made concurrently, there is a disability provision after five years of service, and, in case of death before retirement, the teacher's estate receives the state's contribution as well as his own, although in case of withdrawal he receives only his own accumulations.

The systems of Connecticut, Indiana, Massachusetts, and Ohio occupy a middle ground. They are all compulsory, all have reasonable contributions from the teacher, all have retirement optional from 60 to 69 and compulsory at 70, and all return the teacher's accumulations at withdrawal or death. All allow disability retirement after ten years of service, except Massachusetts, which requires twenty. All provide allowances from the state equal to those provided by the teacher, except Indiana, where the state provides four-sevenths of the total. Massachusetts has a theoretical minimum allowance of $1,000, Connecticut and Indiana of $700; Ohio appears to have no minimum. Ohio deposits are concurrent with those of the teacher, Indiana's are biennial; Connecticut's provide a reserve at the time of retirement; Massachusetts depends upon the precarious arrangement of making appropriations year by year to pay the pensions of teachers who have already retired.

The systems of Maryland, New Jersey, New York, and Pennsylvania also are much alike. Their appropriations are concurrent with those of the teachers except in Pennsylvania, where they are semiannual. On withdrawal, all return the teacher's accumulations, Pennsylvania only in the form of an annuity. In case of death, all return the teacher's accumulations, with the addition in Maryland of life insurance equal to half a year's salary. Retirement in Maryland is at 60 or thereafter, or after five years of service in case of disability. In both New Jersey and Pennsylvania, retirement is at 62 or after ten years of service in case of disability. All

of these four systems unfortunately base their allowances upon guesses at future salaries,—New Jersey on the total of all salaries, Maryland and New York on a number of years before retirement, Pennsylvania on the final salary. New York has, in addition, the handicaps of permitting retirement in case of disability only after fifteen years of service, and retaining the old-fashioned, expensive, and otherwise undesirable provision of retirement after 35 years of service irrespective of age.

The fact that no public school teachers retirement system can be regarded as ideal, and that every system now in operation imposes compromises, rendered advisable or unavoidable by the necessity of adjusting ideal provisions to personal and economic conditions, should not obscure the fact that in the past twenty-five years statewide teachers retirement systems have been constantly becoming more sound. In no other calling, or in respect to no other professional group, is the development of adequate provision for retirement so heartily to be commended.

The machinery set up to conduct the financial operations of most public school teachers pension systems compares somewhat unfavorably with the best of similar provisions for college teachers. In general, the practice in inaugurating a statewide teachers pension system is to restrict investments to certain supposedly sound classes of securities and then to give the retirement board power to invest and reinvest the funds entrusted to its care. For example, the newly authorized California teachers pension law allows investments in funds legal for savings banks. Exceptions or variations regarding this general rule will readily occur to any student of pensions. For instance, in New York State the operations of the retirement fund are under the supervision of the State Department of Insurance, while the head of the Division of Finance in the Department of Taxation and Finance is the

custodian of the funds of the system, the investment of which, however, is one of the responsibilities of the retirement board. In some systems, a sub-committee of the board may look after such matters, its membership being made up of persons whose occupations and interests supposedly qualify them for the task. Usually, additional financial advice is sought from some public-spirited banker or other citizen; or a state official, such as a treasurer or auditor, assists in the work.

The weakness of the method in general lies not so much in the legislative intent which it embodies as in certain inevitable defects of operation. In the first place, the restrictions as to type or classes of securities may tend to decrease the interest yield in case, for example, a board is permitted to invest only in governmental, state, or municipal obligations, or on the other hand, may unduly inflate it if investment in mortgages or real estate is permissible. This is especially true of systems in which political pressure has been brought to lend money to constituents, a proceeding that has sometimes occurred in the past but is now happily much more rare because of the legislative safeguards surrounding most teachers retirement systems.

In the second place, it appears probable that men engaged in the marketing of securities have unloaded upon more than one retirement fund obligations that were not readily salable elsewhere. Such a situation is a serious one and proofs of it are not, of course, readily obtainable. Finally, however desirous the individuals composing a state retirement board may be to discharge their duties to the best of their ability, they are not usually conversant with the highly technical features which underlie the economical investment and reinvestment of such trust funds.

THE RISE OF PAY IN AMERICAN SCHOOLS

The increase in the number of teachers retirement systems during the past fifteen years has been attended by a rise in the active pay of teachers in American public schools, which may be illustrated by the following figures:

SALARIES OF PUBLIC SCHOOL TEACHERS, 1914–1929

	1914[1]	*1929*[2]	*Per cent of Increase 1914–29*	*Average Per cent of Increase*
Senior High School Teachers				
Largest cities (over 100,000)	$1,325	$2,680	102	
Larger cities (30,000–100,000)	1,075	2,120	97	100.3
Small cities (10,000–30,000)	925	1,869	102	
Junior High School Teachers				
Largest cities	850	2,348	176	
Larger cities	783	1,843	135	147.3
Small cities	707	1,634	131	

From these figures it appears that, speaking in most general terms, and assuming that the figures for elementary teachers would exhibit similar characteristics, teachers salaries, the country over, show an increase of about 120 per cent, or about 8 per cent for each of the fifteen years, 1914–29. From figures presented in the report of President Hoover's Committee on Recent Economic Changes in the United States, 1929, it is inferable that in general all wages in this country, during the period 1922–27, advanced at the rate of about 2.8 per cent a year, or a total difference of about 14 per cent for the five years. It would therefore appear probable that in recent years teachers salaries have advanced much more rapidly than other wages. This comparative rate of increase for teachers may at first glance seem large, but in consideration of the previous low scale of pay for teachers and the service that they render to the national welfare, it

[1] National Education Association, Research Bulletin, January-March, 1925, page 15.
[2] *Idem*, May, 1929, page 121.

in reality marks only the beginning of an adequate financial recognition of their social value in the United States.

THE NUMBER OF TEACHERS IN THE UNITED STATES

Adequate figures concerning the number of teachers in the United States are available only up to 1926 in publications of the Bureau of Education, Washington. For 1926, the Bureau gave the total number of teachers in the United States as, in round numbers, 977,000, of whom 771,000 were women and 206,000 men. Of these teachers, some 644,000, —569,000 women and 75,000 men—taught in public elementary schools; 169,000,—106,000 women and 63,000 men—in public high schools. The numbers teaching in private elementary and high schools were considerably lower: 67,000 women and 9,000 men, or about 76,000 teachers in all. The collegiate departments of universities and colleges employed about 43,000 teachers, of whom some 32,000 were men and nearly 11,000 were women. Professional schools of theology, law, medicine, dentistry, pharmacy, and veterinary medicine had 14,700 teachers. Public normal schools and teachers colleges had about 12,000 teachers, while private institutions of the same nature had only 1,900. In view of the increases in the number of teachers between 1920 and 1926 which the Bureau records, it is likely that the total number of teachers in the United States during the school year 1929–30 is somewhat over 1,000,000.

The foregoing statement necessarily gives but a general view of the situation. To describe individual pension systems would be impossible.

It is important that not only state authorities and the teachers but that the public itself should appreciate the fact that the whole matter of the scale of pay and the resulting pensions are directly related to the educational program of a community or of a state. American education has tended

strongly in the last three decades toward a system of mass production in education, under which great numbers of children pass from the elementary school to the secondary school, and from the secondary school to the college, with little interest in intellectual pursuits. The tendency has been to consider the function of the whole educational system one to provide information in every possible subject rather than a process for training the habits and powers of the minds of children and of youth. The outcome of this procedure is that the number of pupils in the secondary school and in the college is greatly increased, and the number of subjects taught is multiplied in still greater proportion. There is a corresponding growth in the number of teachers required. Many of the subjects taught are out of place in the school curricula, and the effort to carry through the enormously increased number of pupils has resulted in a softening of the whole process of education. The teacher has impaired the quality of his own teaching and has diluted his own salary by his willingness to recommend new subjects, new courses, and more teachers.

In proportion as our schools become more sincere and thorough, they will limit the number of the subjects they undertake to teach, but they will give a far better education to the children and to the youth who attend them, and under this process teachers may hope ultimately for a more adequate reward in the way of salary. Educational sincerity, justice to the children and to the youth, and fair compensation for the teacher are intimately related.

(2)

Pension Systems for Ministers

In England, the designation clergyman is applied commonly only to one who has taken orders in the established church. In the United States, the words clergyman, minister, pastor, and preacher are used somewhat indiscriminately. Ministers

in all branches of the Christian Church are also preachers and pastors. The Book of Common Prayer refers to bishops, priests, and deacons as orders of ministers. The word minister probably serves as completely as any single term to designate the clergy, preachers, and pastors of the many Protestant bodies.

The teacher who works in the highest spirit of his profession dedicates himself to his work. His reward must lie, in large measure, in the intellectual satisfactions of his calling.

Even more fully than the teacher, the priest or the minister dedicates himself to the service of his fellowmen. Yet he must have at least a modest support, and it is essential to the cause he serves that his life, even in old age, should be one of dignity and respect. It was in the effort to serve these two ends—complete devotion, together with the dignity of the calling—that the early Church turned toward the notion of the celibate life for its priests. The final adoption of the system by the Catholic Church came only after some centuries of observation and discussion. Vows which were at first voluntary and temporary became finally a matter of Church policy. Celibacy was not accepted by the Orthodox Church of the East. Whatever may be one's attitude toward the policy itself, it must be admitted that the Roman Catholic clergy have owed much of their influence to the celibate's devotion to an unworldly ideal. While the largest Church of Christendom has thus called upon its priests to accept the severe conditions imposed in the denial of wife and children, nevertheless it safeguards them against dependence in illness and old age. The character of the priest's calling is not impaired by his personal poverty. The dignity of his position, in the organization which he serves, is conserved before the eyes of men.

When the Protestant bodies separated from the older Church, some of them still leaned for support on the state.

Establishment, a distinctively English term, implies a relationship between church and state which has involved sometimes partial control of the church through the sovereign, and always the provision of a certain support to the church from the government. In our day this system is more or less under fire, even in Europe. In most states of Germany, in Holland, in Belgium, and in France, there is now no established religion. The Russian communist revolution sought to destroy not only the established church but, so far as it could, all religious organizations. Other countries—Greece, Sweden, Norway, Denmark, Spain, and Portugal, and of course, England and Scotland—still maintain religious establishments with definite relations between state and church which include some state support of the clergy. In the United States, the exemption from taxation of buildings used for educational and religious purposes is a very real subsidy. It might have been better, in the long run, to render unto Caesar the things that are Caesar's.

In the United States there is a complete separation of church and state. The Protestant minister is not, as is the priest of the Catholic Church, protected against the dependence that may arise from illness or old age. Furthermore, he is not only a minister of the church, but he is generally a husband and a father and has the same obligation that rests upon all other men to protect his dependents against the hazard of his premature death and to safeguard himself against the dependence that old age may bring. His economic problem is very much the same as that which confronts the college teacher, and to-day he receives a far less generous support than does the teacher.

It is only during the last generation that these matters have presented themselves in an acute form to the Protestant religious bodies of our country. In pioneer days, and outside of great cities, the minister shared the life of the

members of his congregation. Men are still living who remember the pioneer preacher who rode the circuit, with his library in one side of his saddle-bags and his wardrobe in the other. Many of these were uneducated in the formal sense, but their labors in bringing men to a nobler life were notable influences in the upbuilding of our country. To-day the situation is changed. The United States has become an industrial country. The whole population, even those who live on farms, gather more and more about the cities and towns from which they receive their intellectual and social ideals. The minister of to-day must be an educated man. He must live, however simply, upon a plane of some dignity. The time has clearly come when some machinery must be furnished to Protestant ministers by which they can, within their own capacity to pay, realize a reasonable freedom from dependence. No man can do his best work, however high his calling, or however great his devotion, if there lies over him the fear of dependence for himself and for those who look to him for support. It is out of this situation and to meet this need that the pension funds gathered by the Protestant bodies in the last twenty years have been created. They represent a sincere effort on the part of those who compose the membership of religious organizations to provide the means through which the devoted minister may have reasonable protection against a dependence that is alike abhorent to himself and a reproach to the organization to which he gives his life. It is of the first importance that the agencies set up for this purpose shall strengthen the ministry of the Protestant churches in manly vigor and independence, no less than in a sense of security.

A system of retired pay for any group in the body politic may cut two ways. It may serve to enable those who share its benefits to be less disturbed by the hazards incident to a modest salary and to give their undivided energies to the

cause they serve. Or its effect may be just the opposite. The protection may be based on conditions that impair the minister's self-respect and sense of independence. There was never a time when the Christian Church more acutely needed a ministry that is not only secure but free. The old age pension for the minister is intended to protect him against dependence in old age. This purpose is admirable, but the question must be met in his case, as in the case of the teacher, whether the conditions under which he may have security are consistent with reasonable freedom of action. Protestant bodies in a country where establishment or state support is definitely rejected are only beginning fully to face the need for a fair compensation and a reasonable protection against dependence for an educated, fruitful, and vigorous ministry. Many of them have still to realize that such protection must be on terms that do not lower the independence and dignity of the minister as a man.

NUMBER OF PROTESTANT MINISTERS IN THE UNITED STATES

When one begins to take account of the numerous Protestant bodies in the United States, he can but recall the argument between Erasmus and Luther in the days of the Reformation. Erasmus urged that the reform should be effected within the Church. He argued that in case one body seceded, numerous other divisions would occur and thus the unity of Christendom would be imperilled. As to whether the process which he advocated would have resulted in the eradication of the abuses of that day, it is now idle to speculate. His prediction of the tendency to divide and to subdivide has been amply confirmed. Baptists have fourteen different bodies; Methodists, sixteen; Friends, four; Presbyterians, nine; and even the United Brethren, whose name suggests unity, have split into two. The follow-

ing table for the year 1928, published by Dr. H. K. Carroll in the *Christian Herald*, of April 20, 1929, gives a summary of the number of ministers in the various Protestant churches. There are omitted a few of the smaller bodies and also the Church of Jesus Christ of the Latter Day Saints, which is not only a religious sect but also a highly organized business in its financial relations with its members and with its preachers. There is omitted, likewise, the Church of Christ Scientist, whose financial relations with its readers, who in many cases practice as healers, are also somewhat different from those of other religious bodies.

NUMBER OF PROTESTANT MINISTERS IN DIFFERENT BODIES

Denominations	*Ministers*	*Communicants*
Adventists (5 bodies)	1,596	154,690
American Rescue Workers	560	7,975
Assemblies of God	1,568	82,918
Baptists (14 bodies)	55,555	9,088,449
Brethren (Dunkards) (4 bodies)	3,347	165,111
Brethren (Plymouth) (6 bodies)[1]		22,961
Brethren (River) (3 bodies)[1]	209	4,986
Christian Church	1,090	105,684
Christian Union	398	19,000
Church of God, Reformation Movement	1,782	31,737
Churches of God (Winebrenner)	437	28,871
Church of God and Sts. of Christ (Colored)[1]	200	3,311
Churches of God, General Assembly	300	4,628
Churches of Living God (Colored)[1]	185	5,000
Church of the Nazarene	3,054	74,057
Congregationalists[2]	5,548	928,558
Disciples of Christ (2 bodies)	9,626	1,972,406
Evangelical Churches (2 bodies)	2,129	234,255
Evangelistic Associations (3 bodies)[1]	650	17,847
Evangelical Synod of North America	1,158	287,115
Carried Forward	89,392	13,239,559

[1] U. S. Census, 1926.
[2] Figures for 1927.

Denominations	*Ministers*	*Communicants*
Brought Forward	89,392	13,239,559
Friends (4 bodies)	1,314	112,551
Lutheran (19 bodies)	10,982	2,714,685
Mennonites (13 bodies)	1,606	99,982
Methodists (16 bodies)	45,829	9,164,720
Moravians (2 bodies)	157	30,772
New Jerusalem (2 bodies)	115	6,632
Non-Sectarian Bible Faith Churches[1]	119	6,281
Pentecostal Holiness (4 bodies)[1]	1,074	24,781
Presbyterians (9 bodies)	14,516	2,639,347
Protestant Episcopal	5,883	1,215,383
Reformed (3 bodies)	2,441	564,003
Reformed Episcopal	70	8,622
Scandinavian Evangelical (3 bodies)	699	53,290
Spiritualists[1]	600	41,233
Unitarians	466	62,240
United Brethren (2 bodies)	2,144	419,816
Universalists	492	48,221
Independent Congregations[1]	267	34,501
	178,166	30,486,619

The statement indicates that there are in these thirty-eight Protestant groups at the present time, in round numbers, 178,000 ministers, pastors, and preachers and thirty and a half million members in accepted standing.

THE SALARY SCALE IN THE PROTESTANT MINISTRY

It is not easy to obtain trustworthy figures as to the financial support that the typical minister receives from his congregation. The denominations vary greatly in this respect and even in the same body the salaries in different states show wide variations. Urban congregations pay the larger salaries to their ministers, just as old and strong universities pay the larger salaries to their professors. The average salary scale of some of the most active Protestant bodies is approximately as follows:

[1] U. S. Census, 1926.

Presbyterian	$2,450
Baptist	2,300
Protestant Episcopal	2,300
Disciples of Christ	2,200
Congregational	2,100
Lutheran	2,000
Methodist	1,800

These figures take no account of the house supplied to the minister in perhaps forty per cent of the cases.

Such figures are merely indicative of the situation and are of little value in showing the relative support different churches give to their ministers. A church having many representatives in thinly settled regions or among poorer communities may show a small average salary and yet enlist the services of devoted and able men who work in the spirit of the missionary.

All the statistics gathered by church organizations indicate that the average salary of the minister is rising but that it has not risen as fast as that of the college professor. The financial support of the Protestant minister has probably not increased since the War in proportion to the rise in the cost of living.

An enquiry made in a number of moderate-sized towns in the West and Middle West brought out the fact that the typical pay of the minister in a place of three to five thousand inhabitants was about $2,000 which, allowing fifteen per cent increase for the equivalent of rent on his residence, would amount to approximately $2,300, perhaps less. In the same places, the typical annual pay of railroad employees was as follows:

Locomotive Engineers	$3,500
Conductors	3,200
Brakeman	2,700

These statistics, imperfect as they are, carry the same lesson that more complete and detailed information would

confirm. The minister, like the teacher, deserves a decent salary on which he can live in fair comfort and with which he can, with reasonable economy, protect himself and his wife against dependence. Less than this is unworthy of any church. A Christian body, believing in its own mission in the world, may rightly ask of its ministers complete devotion and consecration of purpose. It has no sanction to demand of them and their families the burden of dependence, and, in the long run, high-minded men will hesitate to enter the ministry under such conditions. They are willing to accept a life of strict economy, but they shrink from the bitterness of dependence, whether for their families or for themselves.

PLANS FOR THE PROTECTION OF MINISTERS AND THEIR DEPENDENTS

The Presbyterian Church and the Moravian Church seem to have been the first among the Protestant religious bodies to attack seriously the problem of lifting from the shoulders of their ministers the uncertainty of protection for their dependents and for themselves. In 1741, Mrs. James Wilson, widow of a Presbyterian minister, received a pastor's pension, and in 1742 the pensions of the Moravian Church were begun.

One of the most notable accomplishments in the direction of affording a reasonable defence to the dependents of the minister against his premature death was the creation, in 1717, of the Fund for Pious Uses, which, in 1759, was incorporated as the Presbyterian Ministers Fund, the oldest life insurance company in the world. It has offered for one hundred and seventy years to the Presbyterian minister the opportunity to insure his life at the minimum of cost. It has been conducted with great economy and upon a sound basis. Its policies have afforded to the ministry of the Presby-

terian Church invaluable aid in insuring their lives. At the end of 1928, the Presbyterian Ministers Fund had resources amounting to eighteen million dollars and fifty-five millions of insurance in force.

Great progress has been made by the larger religious bodies in accumulating funds for old age annuities for their ministers. The following table, compiled by Dr. Charles S. Mills, formerly secretary of the Annuity Fund for Congregational Ministers, shows the pension funds accumulated by various religious bodies, as of August, 1927, the latest date for which full information was available:

CLERGYMEN'S PENSION FUNDS IN THE UNITED STATES
AS OF AUGUST, 1927

Denomination	*Assets*	*Annual Distribution*	*Number of Beneficiaries*	*Average Distribution*
Protestant Episcopal	$20,649,669	$604,215	2,100	$288
Methodist Episcopal	19,000,000	3,252,930	8,458	385
Northern Baptist Convention	13,526,513	520,065	3,905	133
Presbyterian, U. S. A.	13,348,181	755,160	2,415	313
Congregational	9,730,343	351,738	1,160	303
Methodist Episcopal (South)	7,500,000	726,000	2,500	290
United Church—Canada	4,179,405	649,565	1,320	492
Evangelical Lutheran Synod—Missouri	2,700,000	240,106	1,280	188
Southern Baptist	2,470,487	156,516	1,204	130
Presbyterian (South)	1,654,138	170,339	452	377
Evangelical	1,500,000	64,500	255	253
Disciples of Christ	1,062,332	103,568	382	271
Augustana Synod, Lutheran	1,060,922	61,772	250	247
Reformed Church in America	990,717	49,426	208	238
Reformed Church in the U. S.	887,994	53,622	212	253
United Presbyterian	689,460	40,933	147	278
Norwegian Lutheran	667,000	77,496	275	282
United Lutheran	252,010	155,800	748	208
United Brethren	75,000	35,486	245	145
Moravian	41,592	24,020	72	334
20 Denominations	$101,985,763	$8,093,257	27,588	$293

It is of interest to note that of these twenty funds, the Church Pension Fund of the Protestant Episcopal Church possessed at this date the largest assets, while the largest

annual distributions to the greatest number of beneficiaries were those of the Methodist Episcopal Church—more than three and one-quarter millions of dollars to nearly 8,500 persons. The fund of the Northern Baptist convention, amounting to thirteen and one-half millions, distributed over half a million dollars to nearly 4,000 beneficiaries. This fund had the second largest number of recipients, but its annual distribution ranks sixth on the list.

Of these denominations, four are now making, or have recently completed, efforts to raise money to finance improved or reorganized pension plans: the Methodists, the Presbyterians, the Disciples of Christ, and the Lutherans. The General Synod of the Church of England in Canada has discussed the part that it is to undertake in effectuating a pension fund for clergymen of the Church of England.

Several of these funds have shown considerable advances since 1927, the Congregational to ten million dollars, the Northern Baptist to fifteen, the Methodist to twenty-three, and the Presbyterian to twenty-four millions.

Naturally pension funds for ministers have met the same difficulties that have attended the inauguration of old age annuities for other professional groups. The problem of the aged minister, like that of the old teacher, is one of the serious difficulties. To inaugurate an adequate retiring system which shall care for younger men without some provision for those who have given their lives to the service, is repugnant to our sense of justice. On the other hand, to provide anything like adequate retiring allowances for older men calls for a large expenditure and one often beyond the reach of these funds. Necessarily, therefore, the churches have made compromises very much as the colleges have done. They have endeavored to inaugurate a sound pension system for younger men while, at the same time, providing some relief for those already grown old in the service. Under these cir-

cumstances, it is not astonishing that there should be wide differences in the machinery adopted for dealing with the pensions of ministers.

Ministers pensions are in somewhat the same stage as were teachers pensions about twenty years ago. Only one church system, the Congregational, has a sound contractual system of annuities based on deposits. The pension funds of the Protestant Episcopal Church, of the Baptists, of the Disciples, and of the Presbyterians (North) are all based, at least in part, upon unpredictable future salaries. The Reformed Churches, North and South, and the Unitarians simply have organizations that give what they can to the retired or disabled pastor. The Methodist Episcopal Church, the United Brethren in Christ, and the Southern Presbyterians are considering, but have not yet adopted, definite systems.

Among pioneer plans for ministers, the Annuity Fund for Congregational Ministers deserves the credit for setting up a plan that not only is financially sound, but is founded upon a just conception of the philosophy underlying a pension system. It was incorporated in 1914 and began its operations the same year. This Fund, under its regulations of 1921, receives deposits from ministers and their congregations jointly, accumulates them through investment, and provides, according to guaranteed rates, annuities beginning at sixty-five or at such later age as the member may elect. It provides also disability benefits and benefits for widows. For all these provisions, members have contractual certificates. Should the minister leave the service of the Congregational Church, his contract preserves for him the opportunity, under stated conditions, to continue his payments and ultimately to receive such an annuity as the payments will provide. Under this plan, the Fund is not pledged to pay pensions based on unknown future salaries, nor does it assume responsibilities for the future with respect to unknown interest rates. Year by

year, as payments are made and accumulated, a reserve is created which, when the time for retirement comes, will purchase an annuity upon stated conditions. It has the safety of a well-conducted insurance company. This Fund has explained at great length to its members the principles involved in the acquisition of an old age annuity and the obligation, both upon the minister and upon the Church, for the accumulation of the necessary reserves. For example: In a circular containing answers to a hundred questions, one finds the question, "Why should the minister be asked to contribute to his own retiring allowance?" to which is given the following excellent reply: "(*a*) His payment promotes self-respect since his annuity is thus the result of his own initiative; (*b*) It expresses his willingness to coöperate with his church and the whole fellowship in safeguarding his life; (*c*) Annual deposits by members or others on their behalf, accumulated at interest, are an important element in financing any sound plan of annuities."

The scale of the ultimate annuities will, of course, be a function of the salaries which are paid to the ministers. Adequate pensions for ministers in any religious body will be possible only when they receive adequate salaries and begin their annuity accumulations as young men.

The retiring systems set up through the funds accumulated by the various religious bodies have shown steady advance in the matter of actuarial and financial safeguards. The Church Pension Fund (Protestant Episcopal) deserves especial credit for placing itself under the scrutiny of the New York State Department of Insurance. The serious weakness of the Church Pension Fund (and of similar church pension funds), as compared with a plan like that of the Annuity Fund for Congregational Ministers, lies in the faulty social conception upon which the former rests. It is vastly important that the financial integrity of the pension

plan be safeguarded. It is still more important that the system formed upon it shall strengthen, not weaken, the forces that make for personal independence and manly vigor. The pension system maintained by the Church Pension Fund belongs to the "free" pension type. The clergyman whose interests are involved takes no part in the accumulation of the reserves from which his pension is to be paid and has no contractual rights. He acquires no equity by years of service which he can take with him in case he desires to withdraw. The tendency of such a penalty is to retain in the group mediocre men after a certain period of service, with little effect on abler men. The free pension plan tends to depress the salary scale. The congregation that contributes toward a pension for its clergyman will quite as certainly include this in his salary as will the college that joins in the payments toward a pension for a teacher. In the end the clergyman will pay the contribution but will have no contractual rights to show for it. The clergyman, like the teacher, needs freedom as well as security. His true interest, as well as the interest of his church, lies in paying him as generous a salary as possible and then offering him the machinery through which he can, within his ability to pay, provide his retired pay under contractual terms. Not only do the non-contractual pensions tend to depress salary and to limit unduly the freedom of the beneficiary, but they are inadequate and tend to become gratuities rather than retired pay. The Church Pension Fund, in its present form, will prove a source of demoralization to the clergy it seeks to serve.

The establishment of systems of retired pay for ministers or teachers is not a mere incident of organization and of administration. It is directly related to the changes now going on in our social structure and will have its effect on the place which Protestant churches are to fill in religious leadership. The churches will continue, whether their minis-

ters have a pension system or not, just as religion, in its simplest and deepest sense, will not die out among men even if there are no organized churches to serve its cause. But no one can doubt that the religious forces in society will be greatly weakened if the leadership of religious organizations becomes impaired. Protestant churches have no close-knit, worldwide organization, such as the older Church from which they separated. Most Protestant bodies have no liturgical formula, repeating day by day and week by week the comforting and well-known words that are listened to by successive generations from infancy to old age. The sermon fills a larger place in Protestant worship than among other forms of religious organization. From the very nature of its intellectual development, Protestantism rests upon the leadership of a sincere and enlightened ministry. Whatever makes for the upbuilding of that ministry in religious devotion, in high thinking, and in manly vigor ought to be welcomed. The paternalistic "free" pension, under which the beneficiary is led to believe that his pension is to be provided without any effort on his part, cannot fail to weaken the forces that make for the free exercise of these qualities. If any man to-day needs to be free and to stand on his own feet, it is the Protestant minister. The alternative to such leadership is dependence on authority and organization.

Protestantism, as a distinct religious movement, had its rise in that wonderful century that witnessed a rebirth, not of religion alone, but also of learning and of art, for these three are not separate and unrelated but are parts of one thing—the everlasting quest of man for truth. The truths of religion need to be continually restated in terms of human experience and of ever-growing human knowledge. In proportion as the churches succeed in rendering this service, the influence of religion in the lives and thoughts of men will grow.

We are entering now upon a new century in which vast

quickening conceptions are stirring the minds and imaginations of men. Another renaissance lies before mankind. It will make for human happiness if religion and science and philosophy will take council together.

The picture of the fragments into which Protestantism in our country has split is not a reassuring one to contemplate. The creation of new sects and the division of older ones have gone on with us to an astonishing degree. And these divisions, as a rule, have little to do with either religion or morals. They are concerned mainly with theories about religion, with the philosophy of religion—theology. Of all causes that divide men, theological differences seem to carry the maximum charge of human emotion. Any coöperation amongst these many churches, founded in a common tolerance and respect, would go far to promote amongst the mass of mankind a new interest in that simple, fundamental truth for which they all desire to stand. If Protestantism in the sixteenth century served a world purpose in its separation, it can make a like contribution in the twentieth century by unity and coöperation.

There are many small religious bodies that cannot set aside funds in such amount as to finance a sound insurance and annuity plan. Nor is there need for any great number of such agencies. One can but wonder whether the Protestant bodies could not maintain a single agency, handling insurance and old age annuities, writing for each individual in any group such policies and contracts as may be found acceptable and suitable. There is nothing about the conduct of such an agency that has to do with denominational beliefs or organization. Any college teacher in the United States and Canada, whether he belong to an independent college, a Protestant college, a Jewish college, or a Catholic college, can, either with or without the coöperation of his institution, take out through a single agency, the Teach-

ers Insurance and Annuity Association, insurance policies and annuity contracts at minimum cost and suited to his needs. Some such arrangement would seem to be feasible for the Protestant churches of the United States. The spectacle of forty Christian bodies coöperating even in so commonplace a field as the setting up of machinery for writing contracts for the annuities of ministers would be a heartening one.

(3)

Retired Pay for the Members of the Classified Civil Service of the United States

The United States government is unique among great nations in its lack of any adequate provision for retiring its civil servants.

The literature pertaining to this subject is so enormous, and legislation which has been enacted, or which has been proposed, is of so varied a character, that any thoroughgoing description would be impossible in the short compass of this report. A feasible plan for a retiring system for civil service employees must, in the end, be worked out by the government itself through its officers and obtain the approval of the Congress and of the President. The best that the student of the subject can do at this time is to emphasize certain fundamental considerations which must be kept in view in establishing a retiring system for any group of employees, whether of a government, of a commercial company, or of a university.

There is an additional reason why the cause of a retired pay plan for members of the classified civil service of the government should be mentioned in connection with the retirement plans for other groups in the body politic.

The classified civil service contains a large number of highly expert scientific and technical men and women. Nei-

ther the country nor the Congress has ever done justice to their quality and importance. It is a habit in our country to belittle the importance of the service rendered by the government employee, whether he be engaged in technical work or in the routine, but important, duties of the clerical and accounting and other necessary branches of the service. The classified civil service includes almost all professions and callings. The men and the women who give their lives in these services work in a spirit of application and sincere devotion quite comparable to that of those who serve in the business enterprises and in the colleges and universities of the country. Faithful service, a high order of devotion, and a sincere performance of duty are quite as characteristic of these civil servants of the government as they are of the servants of business and of education. To belittle their work or to neglect to provide for them some decent method of retirement in old age is quite as indefensible as similar neglect would be with respect to college teachers. The machinery of government functions, and in the main effectively, by reason of the great army of faithful, conscientious, and high-minded men and women who do its work in honesty and sincerity.

The causes which have prevented enactment by the Congress of some reasonable provision for retirement of persons in the civil service are many.

In the first place, our country is new. With the entrance of Andrew Jackson into the presidency, the public service became in the eyes of a large part of our people the legitimate spoil of politics. We have not wholly outgrown this feeling.

Another reason lies in the political character of the legislation by the Congress concerning war pensions. The legislation relating to the pensions of our Civil War is a monument to the weakness not only of our legislators but of our

presidents, with the notable exception of Grover Cleveland. In the report of the Commissioner of Pensions for the year ended June 30, 1929, over 57 millions of dollars were reported as paid to Civil War veterans and more than 86 millions to their dependents—this for a war that ended more than sixty-four years ago. In the little "Spanish" War of 1898, 414,000 men volunteered, of whom 178,804 (40 per cent) are on the pension roll and drew from the government in the year just ended $65,292,611. If this represented the tribute of a grateful people to those in need who had risked their lives to serve their country, it would be a source of pride to every patriotic American. It represents a very different thing—the political pressure of organized ex-soldiers (most of whom saw no foreign service) on a Congress too subservient to such pressure to do their duty to the country. Every veteran's association, from the Grand Army of the Republic to the American Legion, has used its political power to force tribute out of a Congress too weak to stand up to its duty to the Government and to the whole people. The process has been demoralizing alike to ex-soldiers themselves, to Congress, and to the people.

When we entered the Great War, our government sought to forestall another such experience by a generous system of insurance for soldiers. The precaution proved futile. The American Legion, through its organization, brought such pressure to bear on the Congress as to secure an enormous additional grant from the public treasury. It was voted under the specious phrase of "adjusted compensation." This legislation was passed over the clearly-argued and courageous veto of President Coolidge.

The public has come to believe that the Congress will not withstand the political pressure of an organized group of ex-soldiers. The people, no less than the Congress, are inclined to look upon any proposal for pensions in the light of their

experience with war pensions. This attitude is not to be changed until it can be made clear to the Congress that reasonable provisions for retirement of civil servants not only are just, but are in the interests of the government no less than in the interest of the employees of the government, that, in the long run, a properly constituted civil service retirement plan makes for efficiency and economy and that the plan shall not be subject to political manipulation. Congress knows its own weakness too well to be willing to set up a retirement plan for those in the civil service if that plan can later be used to repeat the squeezing process of the associations of veterans of the various wars. To prevent that disaster the plan must be simple, contractual, and obligatory on all employees in the classified service.

The aged employee has proved to be the same stumbling block, in the consideration of retirement for civil service employees, that he has in the plans for all other groups. There is no way by which an old age annuity can be accumulated, without a cost that is practically prohibitive, except through small annual payments extending over the whole length of service of the individual. For the employee well along in years this is impossible, and in government service, as in the service of the colleges and of the churches, the responsible officers hesitate to establish a retirement system whose advantages are to go mainly to men who are still in early life. At the same time, they are unwilling to pay the sum necessary to retire old men outright upon a living retiring pay, however modest. It would be a weakness to permit this situation permanently to prevent the establishment of what is so necessary a part of a continuous effective service. The best that can be done under such circumstances is to pay to the older employees such sums as are feasible, but to inaugurate a sound retirement plan for the great body of those whose interests are affected. It is unfair to sacrifice

the interests of the service and of the great body of the employees, both of the present and of the future, because the cost of similar retirement for old employees is prohibitive.

The officers of the United States government and the members of the Congress have not always given due weight to the fact, long since recognized by business corporations, that the retention of old employees in the service, after their efficiency has appreciably diminished, is the most expensive pension system possible. The United States government is to-day paying a huge pension bill in its civil service by retaining in duty men and women whose capacity for service is greatly impaired by old age or disability but whom no administrative officer could dismiss without bringing down upon himself and the administration the sharpest opposition from the members of the Congress.

THE NATURE OF THE PROBLEM

There were in the classified civil service of the United States, as of June 30, 1928, 568,715 persons. Of these, about 311,000 were in the Post Office.

The great executive departments of the government have, in round numbers, the following enrolment of classified civil servants:

Treasury Department	51,500
War Department	45,400
Navy Department	44,200
Department of Agriculture	22,200
Department of Commerce	15,900
State Department	4,400
Department of Labor	4,200

a total of 187,800. Various special services make up the remainder, such as:

The Veteran's Bureau	24,000
The Panama Canal	10,500
Government Printing Office	4,000

Interstate Commerce Commission	2,000
Shipping Board	1,700

These employees of the classified civil service represent all possible vocations and occupations. They include scientific men of the highest quality; technical employees whose duties require knowledge and skill; accountants of ability; clerks of various classes; mail carriers and messengers entrusted with important, though routine, duties; and finally, many groups of workmen employed in continuous service, like men in charge of stationary engines or other mechanical service.

It is clear that for the government to pay, outright from revenue, even moderate pensions to those who might become eligible to them from this army of employees would result in an enormous drain on the treasury. In addition, it would be demoralizing both to the government and to the beneficiaries.

PENSION LEGISLATION

Legislation intended to deal with the subject of pensions for the civil service has occupied the attention of Congress for many years. Practical action in this direction began with the act approved May 22, 1920, and upon this act and its modification by subsequent legislation hang all the provisions that have been enacted looking toward the establishment and conduct of a plan of retirement for the civil service. This and subsequent acts have, in the first place, provided for detailed classification of the civil service, for the basic salary in each group of employees upon which the retiring annuities are to be based, and for the terms upon which the employee may retire, whether on his own option or through the act of the administration. The principle of coöperation between the government, as employer, and its civil service employees has been recognized. An amendment to the origi-

nal legislation, approved July 3, 1926, provided that there should be deducted from the basic salary or compensation of each employee the sum of three and one-half per cent of such employee's basic salary or compensation. These sums were, under the act, to be deposited in the Treasury of the United States to the credit of the "Civil Service Retirement and Disability Fund" created by the act of May 22, 1920. The Secretary of the Treasury was directed to invest these accumulations in interest-bearing securities of the United States or Federal Farm Loans.

The government was obligated to pay into the retirement fund an amount equal to that paid in by the employees. The Congress has hitherto made no appropriations for this purpose. From August 1, 1920, to June 30, 1928, the Fund had received in deductions from compensation $142,102,134, and from interest and similar sources $13,838,510, a total of $155,940,644. It had expended $51,026,444 in annuities, $21,997,136 in other settlements, and invested $82,799,454. Just a few months before the end of President Coolidge's administration the Congress passed an act which was intended to make effective the payment of service pensions of a modest kind under this act. The annuity was based, in accordance with the provisions of the original legislation, upon the basic salary, but the maximum annuity provided under the act was only $1,200.

The bill did not become law. President Coolidge did not veto it but allowed it to expire automatically, by the operation known as a pocket veto. This legislation is likely to be reënacted by the present Congress and, in view of the fact that payments of annuities are made to depend upon the payments both of the government and of the individual employee, it is greatly to be hoped that it will become law. It is also to be desired that the Congress may direct the government to make annual payments into the retirement fund

in amounts equal to the payments of employees. Simple justice, no less than the efficiency of government operation, requires the setting up by the government of a sound retirement system for government employees. The United States is no longer a pioneer country. Social and industrial conditions are quite different from those of forty or thirty or even twenty years ago. Competent men and women cannot be held permanently in a service on moderate salary unless they can look forward to the accumulation of some protection against dependence in old age. In the interest both of the employees and of the government, a feasible and just system should be created for this purpose.

THE CONDITIONS TO BE FULFILLED

(1) No pension system for the classified service ought to be set up which involves the government in an unknown and extravagant expenditure.

(2) Any system of pensions paid by the government out of its current resources, without the gradual accumulation of the reserves necessary to purchase the annuity, will inevitably be prohibitive in its cost.

(3) The government can establish a coöperative system with its employees of the classified service by following the same principles that have been tested in other groups of employees working on fixed salaries. This can be done only by requiring each employee, after he enters the service or after he has been for a reasonable period (say two years) in service, to enter upon a compulsory retirement plan in which the pensions are to be provided through a reserve accumulated by monthly deductions from the pay of employees, of from three to five per cent, and also by similar monthly payments on the part of the government to the account of each individual.

(4) The government should furnish the overhead cost of

the agency necessary to carry out the work of the retirement bureau and to attend to the investment of its funds.

(5) In case an employee leaves the service of the government after a term of years, the accumulations to his credit through the payments of himself and the government should be his property, less, perhaps, a small reduction for expenses of management. After ten years of service, such accumulations should be paid out only in the form of an annuity. The conditions of the contract with respect to this provision should be clear and explicit.

(6) Contracts should contemplate a certain age of retirement, perhaps sixty or sixty-five, but the individual should have the right to retire at any age on the basis of the annuity which the accumulations to his credit would purchase. The government should have the power to require retirement, on the basis of the annuity available, under specified conditions.

(7) Under such an arrangement the government will be paying, first, the cost of administration, a moderate sum, and secondly, it will be paying from three to five per cent on its salary roll of classified employees. This sum is a determinable amount. It is limited and is not an excessive sum for the government to pay. At its beginning, it would constitute a slight increase in the salary scale. As a matter of fact, however, such increase will inevitably be absorbed in the salary scale, and since the government must, in time, raise the scale of pay for many classes of its employees, the establishment of such a pension plan would constitute but a small and reasonable expense for the advantages which the government would gain through it. It is only by some such plan of accumulations that a pension scheme for the civil employees of the government can be brought within a reasonable cost, and only by some such plan can the government service be made attractive to efficient men and women.

(8) Such a plan is practically impossible to establish unless the Congress and the executive officers of the government will frankly meet the difficulty of the accrued liabilities of its older employees. No set of executive officers will recommend the termination of the service of old and faithful employees unless some provision is made against dependency. For the next twenty years the government would need to pay into the reserves of these older employees a large sum of money, diminishing each year and disappearing at the end of that period. The cost of such a provision will be trivial in comparison to the cost of a pension system paid outright by the government without the participation of the employee himself, or in comparison to the enormous wastage due to the retention of superannuated officials on active pay.

(9) Such a system brings the cost of retirement to the government, as employer, within a reasonable sum, constituting a small percentage of the salary budget. It promotes efficiency and makes an appeal to able and conscientious employees. It enables the government to rid itself of inefficient employees without undue hardship. Finally, it eliminates politics as a factor in the pension problem.

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